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# *Lehman Brothers (PTG) Limited – in Administration*

Joint Administrators' progress  
report for the period 6 May 2017 to 5  
November 2017

29 November 2017

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# **Section 1 Purpose of the Joint Administrators' progress report**

## **Introduction**

This is the 18th progress report prepared by the Joint Administrators (the "Administrators") of Lehman Brothers (PTG) Limited (in Administration) ("LB PTG" or the "Company").

This report provides an update on the work that the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 5 November 2017 (the "reporting period").

## **Objectives of the Administration**

The Administrators are pursuing the objective of achieving a better result for LB PTG's creditors as a whole than would be likely if LB PTG were wound up (without first being in Administration).

The specific aims of this Administration are to:

- Realise all assets, including cash and interest in real estate, on a managed basis;
- Mitigate so far as possible and agree in principle the claims of all creditors; and
- Continue to manage the investments in LB PTG's subsidiaries to maximise returns to creditors.

## **Outcome for creditors**

On 24 June 2013, the Court granted the Administrators permission to make distributions to unsecured creditors.

To date, seven interim distributions totalling c.£83m has been paid to the Company's unsecured creditors, equating to a cumulative dividend of 44.98 pence in the pound. Please see Section 2 for further details.

The Administrators expect to be able to declare an eighth interim distribution in 2018, although the precise timing and quantum is uncertain.

## **Term of office**

The administration was due to expire on 30 November 2017. Following the Administrators' application to Court to request a further extension of the Administration, an Order was granted by the Court extending the Administrators' term of office to 30 November 2019. This will enable the Administrators to continue to realise LB PTG's assets and make further distributions to its creditors.

## **Future reports**

The Administrators will report to creditors again in approximately six months.

Signed:



GE Bruce  
Joint Administrator  
Lehman Brothers (PTG) Limited

*AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr were appointed as Joint Administrators of Lehman Brothers (PTG) Limited to manage its affairs, business and property as agents without personal liability. The Joint Administrators are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.*

*The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at:*

<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>

*The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.*

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## ***Section 2 Joint Administrators' actions to date***

### ***Overview***

LB PTG was initially funded by Lehman Brothers Holdings Inc. ("LBHI") with the objective of investing in real estate companies within the Lehman Brothers group, principally Eldon Street Holdings Limited ("ESH") and Thayer Properties Limited, which owns the Burford group of companies.

Creditors will recall that the Company's assets fell into three primary categories:

- (i) Debtor balances due from LB PTG's immediate group as well as the wider Lehman Brothers group;
- (ii) Directly owned interests in commercial real estate; and
- (iii) Investments in subsidiary companies ("the PTG Group").

### ***Administrators' actions to date***

Details of the Administrators' steps to realise LB PTG's key assets are set out below.

#### ***Debtor realisations***

##### **ESH**

LB PTG has an admitted claim against ESH of £210.6m.

In the reporting period, ESH declared and paid a seventh interim dividend of £12.8m representing 6.06 pence in the pound. Cumulative receipts from ESH now total c.£83.6m.

##### **Mable Commercial Funding Limited ("Mable")**

LB PTG has an admitted claim against Mable of £3.7k.

The Company has received six dividends totalling 31.88 pence in the pound.

The quantum and timing of further dividends from both ESH and Mable remain uncertain.

#### ***Subsidiary investments***

LB PTG has recovered €4.7m from its investments in subsidiaries, including the sale of Italian real estate assets. In the reporting period, LB PTG received a shareholder distribution from Initium SRL of €102k.

Future distributions are expected from Initium SRL in due course.

#### ***Distributions to creditors***

In the reporting period the Administrators made a seventh interim distribution to unsecured creditors of 6.903 pence in the £. This brings the total distributions to unsecured creditors to c.£83m equating to a cumulative dividend of 44.98 pence in the pound.

#### ***Corporation Tax***

The tax return for the 2016 period end has been drafted and will be submitted shortly. The return shows a small profit offset by brought forward losses.

The enquiry windows for 2015 and earlier periods are now closed.

#### ***Finance (No.2) Act 2017***

The Finance (No.2) Act 2017 which received Royal Assent on 16 November 2017 included legislation in respect of changes to the use of corporation tax loss relief that applies from April 2017.

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In summary the main changes to the loss relief rules are:

(i) Companies will only be able to use losses carried forward against up to 50% of their profits above £5m (this is a group cap); and

(ii) The current streaming rules in relation to the use of losses will be amended to allow losses arising on or after 1 April 2017 to be usable, when carried forward, against profits from other income streams (i.e. carried forward trading losses may be used against non-trading profits) and, profits of other group companies (i.e. carried-forward losses may be claimed / surrendered as group relief).

As a result of these reforms, companies with significant brought forward tax losses may potentially become tax paying entities and sooner than previously forecast. The Administrators will provide further commentary on the implications of corporation tax reforms in future reports as and when there is more clarity on the implications for the company.

### ***Investigations and actions***

Nothing has come to the Administrators' attention in the course of the Administration or during the reporting period to suggest that any further work is required in accordance with the Administrators' duties under the Company Directors' Disqualification Act 1986 and Statement of Insolvency Practice No 2.

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## *Section 3 Statutory and other information*

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*Court details for the Administration:* High Court of Justice, Chancery Division, Companies Court - case 9851 of 2008

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*Full name:* Lehman Brothers (PTG) Limited

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*Trading name:* Lehman Brothers (PTG) Limited

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*Registered number:* 04108157

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*Registered address:* 7 More London Riverside, London, SE1 2RT, United Kingdom

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*Date of the Administration appointment:* 6 November 2008

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*Administrators' names and addresses:* AV Lomas, SA Pearson, DA Howell, GE Bruce and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT

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*Appointer's/Applicator's names and addresses:* The directors of the Company, 7 More London Riverside, London, SE1 2RT

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*Objective being pursued by the Administrators:* Achieving a better result for LB PTG's creditors as a whole than would be likely if LB PTG were wound up (without first being in administration)

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*Division of the Administrators' responsibilities:* In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators

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*Details of any extensions of the initial period of appointment:* The High Court of Justice has granted six successive extensions to the Administration period to: 30 November 2010; 30 November 2011; 30 November 2013; 30 November 2015; 30 November 2017; [and to 30 November 2019.]

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## ***Section 4 Financial information***

### ***Receipts and payments account***

An account of the receipts and payments for the six months to 5 November 2017 and a cumulative total since commencement of the Administration is set out in Section 5.

### ***Administrators' expenses***

As outlined in the Administrators' previous report, Statement of Insolvency Practice 9 ("SIP9"), was revised with effect from 1 December 2015.

As required by SIP9, set out in Section 6 is a statement of expenses incurred by the Administrators since their appointment, together with an estimate on future expenses.

### ***Administrators' remuneration***

In January 2009, the Administrators requested and received consent from LB PTG's creditors for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

In accordance with SIP9, the following information has been provided in Section 7.

(i) an analysis of the Administrators' time costs for the period 1 April 2017 to 30 September 2017, together with the cumulative time costs from the date of the Administrators' appointment; and

(ii) a summary of the Administrators' time costs for the period 1 April 2017 to 30 September 2017, including the key categories of work undertaken, details of the work undertaken, a description of why the work was necessary and whether or not the work was of financial benefit to the creditors or if it was undertaken because it was required by statute.

Time costs for period 1 April 2017 to 30 September 2017 total c.£131k plus VAT, which represents 356 hours at an average hourly rate of £368.

As at 5 November 2017, the Administrators have drawn remuneration of c.£1.9m plus VAT in respect of time costs incurred to 31 May 2017.

### ***Disbursements***

The Administrators are not required to seek approval to draw expenses or disbursements unless they are for shared or allocated services provided by our own firm, including room hire, document storage, photocopying, communication facilities. These types of expenses are called "Category 2" disbursements and they must be directly incurred on the case, subject to a reasonable method of calculation and allocation and approved by the same party who approves our fees.

The Administrators' expenses policy allows for all properly incurred expenses to be recharged to the Administration.

No disbursements were incurred during the reporting period.

Category 1 disbursements (which comprise payments to third parties) totalling £3,406 have been paid since the Administration commenced.

### ***Creditors' rights***

Creditors have the right to ask for information and challenge an administrator's fees if they believe that they are too high. You can find an explanatory note online at:

<http://www.icaew.com/~media/corporate/files/technical/insolvency/creditors%20guides/a%20creditors%20to%20administrators%20fees%20010407.ashx>

Creditors can request a paper copy of the above guide by contacting [Lehman.affiliates@uk.pwc.com](mailto:Lehman.affiliates@uk.pwc.com).

# Section 5 Receipts and payments account

## Lehman Brothers (PTG) Limited (in Administration) Joint Administrators' receipts and payments account

	Notes	GBP Movements			EUR Movements			USD Movements		
		05-Nov-17	in Period	05-May-17	05-Nov-17	in Period	05-May-17	05-Nov-17	in Period	05-May-17
<b>Receipts</b>	<b>1</b>									
Distributions received		80,401,388	12,769,187	67,632,201	1,106,032	102,000	1,004,032	4,163,345	-	4,163,345
Asset realisations		-	-	-	3,643,180	-	3,643,180	-	-	-
Loan from group company		30	-	30	-	-	-	-	-	-
Sale of tax losses		51,284	-	51,284	-	-	-	-	-	-
VAT refunds repaid to Lehman Brothers Limited		-	-	-	-	-	-	-	-	-
Corporation tax refund		-	-	-	-	-	-	-	-	-
Net tax function costs recharged		249,930	-	249,930	-	-	-	-	-	-
Assets held on trust		399	-	399	-	-	-	-	-	-
Interest received gross		82,085	800	81,285	-	-	-	14	-	14
<b>Total receipts</b>		<b>80,785,116</b>	<b>12,769,987</b>	<b>68,015,129</b>	<b>4,749,212</b>	<b>102,000</b>	<b>4,647,212</b>	<b>4,163,359</b>	<b>-</b>	<b>4,163,359</b>
<b>Payments</b>										
Legal fees		168,581	3,927	164,654	-	-	-	-	-	-
Professional fees		29,765	5,308	24,457	-	-	-	-	-	-
Employee wages and associated costs	<b>2</b>	335,915	-	335,915	-	-	-	-	-	-
Joint Administrators' remuneration		1,917,440	73,804	1,843,636	-	-	-	-	-	-
Joint Administrators' category 1 disbursements		3,406	-	3,406	-	-	-	-	-	-
Payment for group relief		342,723	-	342,723	-	-	-	-	-	-
Statutory advertising		73,015	9,271	63,743	-	-	-	-	-	-
Insurance		87,150	-	87,150	-	-	-	-	-	-
Pension related legal costs		97,522	-	97,522	-	-	-	-	-	-
Payment on account to HMRC for potential corporation tax liability	<b>3</b>	300,000	-	300,000	-	-	-	-	-	-
IT costs		5,741	-	5,741	-	-	-	-	-	-
VAT irrecoverable	<b>4</b>	382,520	17,400	365,119	-	-	-	-	-	-
Bank charges		-	-	-	5	-	5	-	-	-
<b>Total payments</b>		<b>3,743,778</b>	<b>109,711</b>	<b>3,634,066</b>	<b>5</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Intracompany transfers</b>										
Receipt		3,718,840	-	3,718,840	-	-	-	-	-	-
Payment		-	-	-	(4,507,780)	-	(4,507,780)	-	-	-
<b>Total receipts less total payments</b>		<b>80,760,179</b>	<b>12,660,277</b>	<b>68,099,903</b>	<b>241,427</b>	<b>102,000</b>	<b>139,427</b>	<b>4,163,359</b>	<b>-</b>	<b>4,163,359</b>
<b>Distributions to unsecured creditors</b>										
1st dividend of 7.50p in the £, declared 29 October 2013		(13,717,755)	-	(13,717,755)	-	-	-	-	-	-
2nd dividend of 10.42p in the £, declared 5 September 2014		(19,058,521)	-	(19,058,521)	-	-	-	-	-	-
3rd dividend of 7.52p in the £, declared 11 March 2015		(13,756,814)	-	(13,756,814)	-	-	-	-	-	-
4th dividend of 6.60p in the £, declared 10 March 2016		(12,071,616)	-	(12,071,616)	-	-	-	-	-	-
5th dividend of 2.55p in the £, declared 9 September 2016	<b>5</b>	(1,524,019)	-	(1,524,019)	-	-	-	(4,163,345)	-	(4,163,345)
6th dividend of 3.488p in the £, declared 16 March 2017		(6,378,989)	-	(6,378,989)	-	-	-	-	-	-
7th dividend of 6.903p in the £, declared 11 September 2017		(12,625,933)	(12,625,933)	-	-	-	-	-	-	-
<b>Cash in hand / (movement in year)</b>		<b>1,626,532</b>	<b>34,344</b>	<b>1,592,189</b>	<b>241,427</b>	<b>102,000</b>	<b>139,427</b>	<b>14</b>	<b>-</b>	<b>14</b>
<b>Cash balances</b>										
HSBC	<b>6</b>	1,626,532	34,344	1,592,189	241,427	102,000	139,427	14	-	14
Money market		-	-	-	-	-	-	-	-	-
<b>Total cash</b>	<b>7</b>	<b>1,626,532</b>	<b>34,344</b>	<b>1,592,189</b>	<b>241,427</b>	<b>102,000</b>	<b>139,427</b>	<b>14</b>	<b>-</b>	<b>14</b>

### Notes

- All of the Company's assets are uncharged, there being no secured creditors.
- Quarterly recharge to Lehman Brothers International (Europe) for providing Tax services, benefiting creditors through cost savings from the centralisation of services.
- Payment on account to HMRC in respect of the potential corporation tax liability arising in the year from (i) subsidiary Grace Hotels final distribution and (ii) held over gain triggered by distributions from ESH.
- Due to the nature of the Company's former business, it is not entitled to recover input VAT on its costs.
- The fifth interim dividend of 2.55 pence in the pound was paid to unsecured creditors with the payment made from funds held in Sterling (£1.5m) and US Dollars (\$4.2m).
- GBP and USD funds are held in an interest bearing account. EUR accounts are non interest bearing.
- The estimated to realise values of assets shown in the directors' statement of affairs do not represent a meaningful comparison with the current position and are therefore excluded.



## Section 6 Expenses

The following table provides details of the Administrators' expenses. Expenses are defined as amounts payable by the Administrators from the estate, they include the Administrators' fees but exclude distributions to creditors. The table also excludes any potential tax liabilities (other than VAT) that may be payable as an Administration expense, as amounts becoming due will depend on the position at the end of the tax accounting period and the impact of any tax reform.

The table should be read in conjunction with the receipts and payments account in Section 5, which shows expenses actually paid during the reporting period and to date.

In estimating future expenses, assumptions have been made relevant to the annual run rate and length of the current period of extension to the Administration, where appropriate.

	Brought forward from preceding period £k	Paid in the period £k	Cumulative £k	Incurred and not paid £k	Estimated future £k	Anticipated total £k
Legal fees	165	4	169	3	80	252
Pension related legal costs	98	-	98	-	-	98
Employee wages and associated costs	335	-	335	-	40	375
Joint Administrators' remuneration and disbursements	1,847	74	1,921	84	316	2,321
Other*	181	14	195	-	20	215
Irrecoverable VAT	365	17	382	17	91	490
<b>Total</b>	<b>2,991</b>	<b>109</b>	<b>3,100</b>	<b>104</b>	<b>547</b>	<b>3,751</b>

\*Other costs include statutory advertising for the seventh dividend and professional fees.

## Section 7 Joint Administrators' time costs for the period 1 April 2017 to 30 September 2017

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support Staff		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	0.85	737	16.05	7,375	5.70	1,602	33.25	8,027	55.85	17,740
Creditors	0.80	656	10.55	5,113	28.10	7,899	5.40	1,316	44.85	14,984
Statutory and Compliance	2.50	2,138	25.70	11,840	68.95	20,037	37.95	8,970	135.10	42,985
Strategy and Planning	13.05	10,400	22.45	10,484	12.75	3,624	7.95	1,895	56.20	26,403
Tax and VAT	0.70	766	16.20	10,302	38.85	16,291	8.60	1,740	64.35	29,098
<b>Total for six months ended 30 September 2017</b>	<b>17.90</b>	<b>14,697</b>	<b>90.95</b>	<b>45,114</b>	<b>154.35</b>	<b>49,453</b>	<b>93.15</b>	<b>21,948</b>	<b>356.35</b>	<b>131,210</b>
<b>Average hourly rate for the six month period to 30 September 2017</b>										<b>368</b>
<b>Cumulative total to 30 September 2017</b>										<b>2,002,048</b>

Current charge out rates	Business Recovery Services		Specialist	
	Max £/hr	Max £/hr	Max £/hr	Max £/hr
Grade	From 1 July 2015	From 1 July 2017	From 1 July 2015	From 1 July 2017
Partner	899	935	1,262	1,312
Director	788	820	1,108	1,152
Senior Manager	527	548	932	969
Manager	444	462	680	707
Senior Associate	371	386	505	525
Associate/Support Staff	236	245	235	244

The Administrators' remuneration has been fixed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in the Administration. The minimum unit for time charged by the Administrators and their staff is 0.05 of an hour.

Specialist departments within PwC, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown give an indication of the maximum rate per hour.

Charge out rates were held unchanged from 1 July 2012 to 30 June 2015. An increase of 3% in charge out rates was effective from 1 July 2015 to 30 June 2017. An increase of 4% in charge out rates is effective from 1 July 2017, and in line with other Group affiliates controlled by PwC's office holders, this approach is also used for PTG.

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## ***Summary of the Joint Administrators' time costs for the period 1 April 2017 30 September 2017***

### ***Accounting and treasury - £17,740***

An essential function for the management of funds held by the Administrators on behalf of the Company, the Administrators' treasury and cash management teams monitor and control the movement of funds, mitigate risk and seek to maximise the interest made on investments for the benefit of the Company's creditors.

Activities include:

- Provision of information for the purposes of statutory reporting;
- Arrangement of receipts and payments of funds and coding of movements;
- Monitoring flow of funds into the bank accounts;
- Reconciliation of bank accounts;
- Verifying creditor payment details; and
- Paying the seventh distribution to creditors in September 2017.

### ***Creditors - £14,984***

In accordance with their duties, the Administrators have responded to creditors' requests for information where applicable, and paid a seventh unsecured dividend in the reporting period.

Activities include:

- Liaison with creditors regarding their claims;
- Maintaining a schedule of creditors' claims received and adjudicated;
- Preparing for and declaring the seventh dividend to unsecured creditors; and
- Updating the estimated outcome statement in preparation for the seventh distribution.

### ***Statutory and compliance - £42,985***

The following tasks were undertaken in accordance with the Administrators' statutory obligations and/or internal compliance:

- Preparation of the Administrators' 17th progress report, including preparation of a receipts and payments account and detailed remuneration summary;
- Circulating progress report to creditors and uploading to the dedicated creditors' website;
- Preparation and review of documents for the extension of the Administration including witness statements, liaising with lawyers regarding the extension of the Administration and responding to queries from the judge;
- Undertaking a six monthly review of the Administration;
- Conducting a review of time costs in preparation for billing; and
- Maintaining the case website, case records and database.

### ***Strategy and planning - £26,403***

The Administrators and their staff have invested a large proportion of their time in the planning and delivery of their strategy for the progression of the Administration. The Administrators' consider that their actions support

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their objective of achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration).

Activities include:

- Review of the strategy for the Administration in relation to various matters and, regular team meetings to consider case progression;
- Review and maintenance of financial information, including an estimated outcome statement;
- Discussions regarding strategy for the Administration;
- Updating strategy documents;
- Distribution strategy and planning;
- Liaison with specialist teams; and
- Regular meetings regarding the status of assets.

### ***Tax and VAT - £29,098***

The following tasks were undertaken for VAT and tax compliance purposes:

- VAT reconciliation and preparation of VAT returns;
- Dealing with corporation tax and VAT queries;
- Preparation of the accounts for 2016;
- Preparation of the 2016 tax computation including consideration of the application of the new Substantial Shareholding Exemption rules;
- Compliance with the Administrators' responsibilities under Senior Accounting Officer legislation, Tax Strategy and Corporate Criminal Offence legislation; and
- Attending update meetings with the Administrators team.

## ***Section 8 Estimated future time costs and other matters***

LB PTG's principal remaining asset is its £210.6m unsecured claim against ESH. The Administrators are still considering the most efficient strategy for realising and distributing the remaining assets to the Company's creditors. In the meantime, the Administrators continue to actively progress all other matters pertaining to the estate.

The Administrators currently estimate that their future time costs and disbursements to complete the Administration will be c.£316k, broadly analysed as follows:

	<b>£'000</b>
Accounting and treasury	30
Creditors	30
Statutory and other compliance	120
Strategy and Planning	100
Tax and VAT	36
	<b><u>316</u></b>

The nature of the work and benefit for creditors and / or whether it needs to be undertaken for statutory or regulatory reasons will be as outlined in Section 7 in regard to activity for the six months to 30 September 2017.

During the next six months, the Administrators will continue to realise debtor recoveries, which are uncertain due to LB PTG's debt holding in other complex estates, and its interest in its last remaining subsidiary, Initium SRL, to facilitate further distributions to creditors. In addition the Administrators will continue to comply with their statutory obligations as Administrators and officers for tax.

### ***Relationships***

The Administrators have no business or personal relationships with the parties who approve their fees or who provide services to the Administration where the relationship could give rise to a conflict of interest.

### ***Details of subcontracted work***

Certain centralised services are undertaken on behalf of LB PTG by employees retained by LBIE. These include the provision of certain Tax and VAT services and key staff resource. The costs of such services are invoiced directly and shown as "Employee wages and associated costs" (include wages, annual bonus and serviced office costs) on the receipts and payments account in Section 5. Other subcontracted work includes the management of LB PTG's investment in Italian subsidiaries and real estate.

<b>Service provided</b>	<b>Name of firm / organisation</b>	<b>Reason selected</b>	<b>Basis of fees</b>
Tax Services	<i>LBIE</i>	<i>Industry knowledge</i>	<i>Time costs</i>

Investment Management	<i>MCD SRL</i>	<i>Industry / Prior Knowledge</i>	<i>Time costs</i>
Portfolio Management	<i>LB SF Warehouse Limited</i>	<i>Industry / Prior Knowledge</i>	<i>Time costs</i>

### *Legal and professional firms*

The Administrators have instructed the following legal professionals on this case. The selection of individual legal firms is determined by the jurisdiction and nature of the advice being sought, and whether a conflict exists.

<b>Service provided</b>	<b>Name of firm / organisation</b>	<b>Reason selected</b>	<b>Basis of fees</b>
Legal services:	<i>Linklaters LLP</i>	<i>Industry knowledge</i>	<i>Time costs</i>

All professional firms instructed by the Administrators are required to provide a narrative explanation in support of invoices. All invoices are reviewed before being approved for payment. The Administrators are satisfied that the level of legal and professional costs are appropriate.